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PROPOSED PROGRAMS REQUIRING DEVELOPMENT OF AFFORDABLE HOUSING AND REVISING AFFORDABLE HOUSING STANDARDS

The Housing Element of the San Luis Obispo County General Plan contains programs designed to facilitate housing affordable to county residents at all income levels. The Planning and Building Department has issued a concept paper for implementation of the following programs in the adopted Housing Element:

- Require Development of Affordable Housing; and
- Ensure That Affordable Housing Remains Affordable.

Under the proposal by the Planning and Building Department, both residential and commercial developments in the unincorporated areas of the county would be required to contribute toward provision of affordable housing. Ordinances requiring new residential developments to provide affordable housing are called “inclusionary housing” ordinances and are becoming more commonplace in California cities and counties. Ordinances requiring commercial developments to contribute impact fees to assist in the development of affordable housing are called “linkage programs” because they are based on the link between new job-generating development and the resulting increased need for affordable housing for the new employees.

The County also proposes to revise its standards for affordable rents, sales prices and provisions for ensuring that affordable housing remains affordable. The initial sales prices would be lower than the County’s existing standards: for example, the maximum sales price for a moderate-income home is nearly $300,000, whereas the proposed formula would result in a maximum sales price of approximately $260,000. In order to ensure long-term affordability, the County proposes that affordable rental housing remain affordable for at least 55 years and that affordable ownership housing remain affordable for at least 45 years. Resale prices of ownership housing would rise no faster than median incomes rise.

The County is preparing draft ordinances to implement these proposals. Once draft ordinances have been prepared, the ordinances will be the subject of an environmental impact report, financial feasibility study and nexus study before hearings can be set in 2006 for adoption. A public workshop has been scheduled for May 24, 2005, from 6:00 P.M. to 8:00 P.M. in the Lounge Room of the San Luis Obispo Veterans Building, 801 Grand Avenue, San Luis Obispo.

For more information on the status of the Housing Element programs, please contact Dana Lilley, Supervising Planner, at (805) 781-5715. His email address is dlilley@co.slo.ca.us. Also, you can view or download the entire Housing Element and any concept papers issued at http://www.sloplanning.org .

Concept Paper
Proposed Inclusionary Housing Program, Housing Linkage Program and Revisions to Affordable Housing Standards

San Luis Obispo County Planning and Building Department
May 13, 2005

The Housing Element of the San Luis Obispo County General Plan contains programs designed to facilitate housing affordable to county residents at all income levels. This concept paper summarizes the Planning and Building Department's proposal for implementation of the following programs of the new Housing Element:

- Program HE 1.9: Require Development of Affordable Housing; and
- Program HE 2.2: Ensure That Affordable Housing Remains Affordable.

The purpose of this concept paper is to solicit comments from all interested persons and groups before the County prepares the implementing ordinances, prepares an environmental impact report, conducts a financial analysis, and then schedules hearings for adoption.

County staff conducted research into practices and ordinances of other cities and counties during and after the Housing Element update. The information was summarized in a written report and shared with local agencies, builders and the public during a series of workshops. A copy of that "white paper" is available. County staff also met with representatives of the Home Builders Association of the Central Coast. The information obtained influenced the proposals summarized in this paper.

Here is a brief list of the public comments most frequently heard:

- Most residents expressing their opinions said they like the concept of requiring new developments to contribute toward provision of affordable housing.
- Residents want preference for new affordable housing to be given to existing county residents and to persons who work near the housing.
- Some types of housing should be exempt from an inclusionary requirement (secondary dwellings, elder-care facilities, and mobilehome parks as examples).
- New affordable housing should be located in a manner that does not result in too many low-income households in any one community.
- Less inclusionary housing requirements should be applied to existing residentially zoned land than to land newly rezoned for higher density.
- Avoid setting a threshold under which no inclusionary requirement is applied or builders will seek smaller projects to avoid providing housing.
- Home builders should not bear the entire burden, so a "linkage" program of impacts on new commercial development should be implemented.
- Any in-lieu fees should be updated periodically to keep pace with cost increases.

- In-lieu fees should be collected at the time of sales of market rate housing and not earlier.
- Builders should be offered alternatives to building the required affordable units, such as in-lieu fees, provision of affordable housing off-site, and land dedication.
- A variety of types and sizes of affordable housing is needed.
- The County should grant a density bonus equal to the number of affordable housing units being required.
- Inclusionary housing requirements should address lot-sales land divisions.
- Affordable housing should remain affordable for as long as possible.
- The first buyers of affordable housing resulting from government requirements should not receive unlimited equity appreciation.
- Resale limits will not prevent buyers of affordable housing units from obtaining mortgage financing.
- The County's existing affordable housing sales price limits are too high.

County staff also reviewed the experience of Santa Barbara County which recently revised its inclusionary program. The Home Builders Association of the Central Coast (HBACC) indicated that it "could live with" Santa Barbara County's inclusionary housing program because it included a density bonus equal to the number of moderate-income and workforce housing units being required if built on-site. The HBACC is expected to treat San Luis Obispo County's proposal similarly if it includes a similar density bonus provision.

Tentative schedule for review and approval of the inclusionary program and other programs of the Housing Element:

The proposed ordinances implementing an inclusionary housing program, a linkage program, revised density bonus program, minimum residential densities (in RMF), and other programs of the Housing Element will be evaluated in an environmental impact report (EIR). However, ordinance amendments revising the affordable housing standards (initial and long-term) and some of the secondary dwelling changes may not need an EIR. Thus, two separate packages of ordinance amendments can be processed:

Concept Paper on Inclusionary/Linkage/Affordability Proposals	May 13, 2005
Initial public workshop (6:00 P.M. SLO Veterans Bldg, 801 Grand Ave)	May 24, 2005
Concept Paper on conversions of condos or mobilehome parks	May 27, 2005
Concept Paper on development stds, minimum RMF densities, etc.	June 17, 2005
Public workshops, meet with advisory committees and builders	May, June, July 2005
Prepare draft ordinances	June, July 2005
Prepare CEQA initial studies	August 2005
Conduct nexus and feasibility study	August, Sept 2005
Adoption hearings for 2nd units and affordable standards	Oct, Nov, Dec 2005
EIR	July 2005 – May 2006
Adoption hearings for larger package of amendments	June, July 2006

Proposed inclusionary program characteristics:

Minimum project size: None, but projects smaller than five housing units would be subject to in-lieu fees of approximately $3,000 to $5,000 per home. Exempting the thousands of existing lots in the county from the inclusionary housing requirement would result in significantly fewer affordable housing units being created.

Applicability to lot-sales land divisions: Same as new construction projects. Since in-lieu fees will be due at time of sales of market rate housing units, lots created for subsequent sale will have a lien recorded to guarantee payment of the in-lieu fee at a later date.

Basic inclusionary requirement: 20% of the base project, consisting of 5% very low-income units, 5% lower-income units, 5% moderate-income units and 5% "workforce housing" units. The new category called "workforce housing" includes housing for households earning between 120% and 160% of the county median income.

Exemptions: Rental apartment projects with a density of at least 10 units per acre, secondary dwellings, farm support quarters, on-site or off-site employee housing.

Options for satisfying inclusionary requirement: Build the affordable units on-site, build the affordable units off-site, pay an in-lieu fee, donate land for subsequent development of affordable housing.

Amount of in-lieu fees (2 levels): The intent of the fees is to enable the County to cause the affordable housing units to be built off-site through a nonprofit or for-profit group. In-lieu fees for very low-income units and lower-income units would be set at an amount equal to the current estimated financing "gap" for local affordable housing developments using state or federal financing (currently estimated at approximately $100,000 per affordable unit). Fees for moderate-income housing units and workforce housing units would be set at an amount equal to the median sales price of condominiums minus a profit of 15% since these units would need to be built without subsidies. As a result, the in-lieu fees for moderate-income housing and workforce housing will be significantly higher than the in-lieu fees for very low-income or lower-income housing (i.e., $300,000 compared to $100,000).

Density bonus for affordable units: Projects subject to the 20% inclusionary requirement will be eligible for a 20% increase in density if the affordable housing units are provided on-site.

Linkage program requirement for commercial/industrial development: An affordable housing in-lieu fee equal to 5 percent of the estimated valuation of new non-residential development is proposed. Developers could build affordable housing instead, but few are expected to choose this option. The amount of the fee per square foot of new development can be adjusted through the subsequent nexus and financial feasibility study to be prepared concurrently with an environmental impact report.

Standards ensuring that affordable housing remains affordable: Rents and initial sales prices would be adjusted to more accurately reflect what households can afford and to achieve more consistency with the standards of local cities. As an example, a moderate-income, 3-bedroom condominium could sell for about $260,000 instead of $300,000 as the existing ordinances allows. Rental housing units would remain affordable for at least 55 years and ownership housing units would remain affordable for at least 45 years. Rents and resale prices would be adjusted according to median income changes. If a housing unit subject to these standards is sold before 45 or 55 years, then it must be sold or rented to an income-eligible buyer and the requirement would be renewed for a second 45- or 55-year period. A “community land trust” could improve and extend this model beyond 45 or 55 years by owning the land under the affordable housing and leasing it to the home buyer.

Subsequent uses of in-lieu fees: Affordable housing in-lieu fees would be paid into a trust fund and held for later use in subsidizing affordable housing. These fees would be used to support development of new affordable housing in the same general housing market area as the development that resulted in payment of the in-lieu fee (not yet mapped).

How would a project be affected?

Here are two hypothetical projects illustrating how the new inclusionary housing ordinance would apply to new housing projects.

Project 1: Developer pays the in-lieu fee.

A developer finds a one-acre site that is designated Residential Single Family, with a minimum parcel size of 6,000 square feet. During a pre-application conference with the developer, County staff determines that the base density is six homes. The ordinance requires an amount of affordable housing equivalent to twenty percent of the base project. Rounding down from 1.2, the County determines that one affordable housing unit is required (20% x 6 homes = 1.2). The first required unit must be affordable to a very low-income household. The developer chooses to pay the in-lieu fee of $100,000, since he does not wish to provide a very low-income housing unit within his project. He then agrees to pay the $100,000 in six installments of $16,666.67 each as the six new homes are sold.

Project 2: Developer builds the affordable housing on-site.

A developer finds a four-acre site that is designated Residential Multi-Family, with a maximum base density of 26 units per acre or 104 units. Rounding up from 20.8, the County determines that 21 affordable housing units are required (20% x 104 = 20.8). Of these, 5 units must be for very low-income households, 5 for lower-income households, 5 for moderate-income households and 6 for workforce households. The developer chooses to build the affordable housing on-site, so the County grants a density bonus of twenty percent. The project now consists of 125 units of which 21 are affordable.

Why does the proposed inclusionary program require affordable housing units equivalent to twenty percent of new housing projects?

The proposed requirement is based on the quantified objectives in the adopted Housing Element. It includes certain assumptions regarding potential affordable housing that may be provided through a variety of programs and activity of the private sector. The Housing Element establishes the following five-year objectives:

Income Group	Five Year Objectives	Annual Objective
Very Low Income	533 units	107 units
Lower Income	391 units	78 units
Moderate Income	462 units	92 units
Above Moderate Income	2,168 units	434 units
Total	3,554 units	711 units

This proposal includes a new category of housing called “workforce housing” which is affordable to households earning between 120 and 160 percent of the county median income, and is a subset of “Above Moderate.” After the Housing Element was adopted, residents and organizations suggested that the County should identify a new income group that is now having trouble affording housing. They called this new group “workforce housing” and a network of residents formed an advocacy group called the Workforce Housing Coalition to promote housing for all income groups. The assumption here is that of the 434 housing units needed for above moderate income households each year, 83 are needed for this new category of workforce housing.

The total annual objectives may be met through a variety of programs and activities of the private sector. The following table shows proposed objectives, even though past experience indicates that actual production of affordable housing may fall short of these objectives. Based on these objectives, the County Planning and Building Department proposes that the inclusionary program should require new developments to provide the following amounts of affordable housing: 5 percent very low income; 5 percent lower income; 5 percent moderate income; and 5 percent workforce housing. Also, new nonresidential development should pay an in-lieu fee equal to 5 percent of the estimated value of construction.

Program/strategy	**Very Low Income**	**Lower Income**	**Moderate Income**	**Workforce Housing**	**Other**	**Total**
Assisted by County or USDA	35	25				60
Secondary dwellings	15	10	10			35
Density bonuses	10	10	17			37
Housing exempt from inclusionary housing	20	10	10			40
Commercial linkage fees	7	3	5	5		20
Inclusionary housing	20	20	20	20		80
Market rate housing			30	58	351	439
Total	107	78	92	83	351	711